

Engro Fertilizer Ltd. (EFERT)

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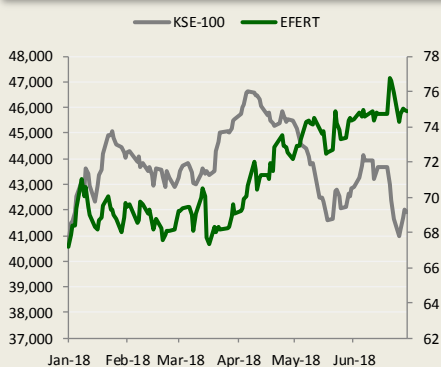
EFERT Analysts' Briefing Highlights

KEY DATA

PSX Ticker	EFERT
Sector	Fertilizer
Current Price PKR	80.26
Market Cap (PKR mn)	107,171
Market Cap (US\$ mn)	871
52 weeks High	81.75
52 weeks Low	54.91
Shares Outstanding (mn)	1335.3
Free Float (%)	45%

Source: PSX/Darson Research

Relative Performance (HY-CY'18)



Hike in urea prices bode well for EFERT'S topline

EFERT organized post-result analyst briefing on 13th August 2018, to discuss its HCY18 result. According to which, the bottom line of the company showed a growth of 74%YoY which was recorded at PKR 7,149mn in HCY18 versus PKR 4,116mn in the same period last year, which can be mainly accredited to improved turnover and decrease in finance cost. Moreover the company posted an EPS of PKR 5.35/share in HCY18 against PKR 3.08/share, an increase of 74%YoY. In conjunction with result EFERT also announced an interim cash dividend of PKR 4/share. The key takeaways of the briefing are given below.

- EFERT posted a growth in EPS of 74%YoY to PKR 5.35/share in HCY18 owed to increase in urea price which is currently hovering around 1610/bag while the landed cost of imported urea is PKR 2100/bag after removal of cash subsidy followed by dipped in finance cost by 32%YoY (mainly due to debt retirement) and other expenses by 8%YoY which contributed positive to the overall earnings of the company.
- The company also recorded deferred tax of PKR 1bn as the effective tax rate stood around 31.5% primarily due to the tax credit from reduction in corporate tax rate from 30% to 25% in the recent budget. Moreover, the company anticipates to record RKR 1bn tax credit in 2HCY18.
- EFERT's subsidy receivable share stands at 6.5bn against the overall industry's disbursed subsidy that clocked at PKR 19.6bn.
- Increase in urea prices might stay stagnant due to the adequate availability of urea stocks to dealers.
- The company expects a slight decline in urea demand to 5.6mn Tons amidst 2018 versus 5.8mn Tons in 2017 by 3.5% as well as DAP sales to decline by 25% to 1.8mn tons on the back of water scarcity in the upcoming kharif season which affects southern Sindh area.

PKR mn	HCY'18	HCY'17	YoY%	2QCY'18	2QCY'17	YoY%
Net sales	41,116	27,311	51%	22,898	17,247	33%
Cost of sales	27,096	18,542	46%	16,208	11,994	35%
Gross profit	14,020	8,769	60%	6,689	5,253	27%
Other income	1,654	3,244	-49%	509	2,068	-75%
Other operating expenses	573	622	-8%	169	414	-59%
Finance cost	886	1,309	-32%	362	623	-42%
Profit before taxation	10,432	6,481	60%	4,845	4,227	15%
Taxation	3,282	2,364	39%	1,585	1,748	-9%
Profit for the period	7,149	4,116	74%	3,260	2,479	31%
EPS	5.35	3.08	74%	2.44	1.85	32%

Source: Darson Research, Company Accounts

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Data Sources: PSX, Company Accounts and DSL research



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- | | |
|---|---------------------|
| If; | |
| • Expected return >15% | - Buy Call |
| • Expected Return is in between 0% to 15% | - Neutral/Hold Call |
| • Expected Return <0% | - Sell Call |

Valuation Methodology

To arrive at our period end target prices, DSL uses different valuation methodologies including:

- Discounted cash flow (DCF, DDM)
- Justified price to book (JPB)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

SECP JamaPunji Portal link: www.JamaPunji.pk

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